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IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752.

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

C. STANLEY THOMPSON,
PHILIP G. CLIFFORD,
FREDERICK SCHAFER,
Of Counsel for Respondent.

March 28, 1933.

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BRIEF FOR RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

I.

STATEMENT OF THE CASE.

The petition of the Sinclair Refining Company prays that a writ of certiorari issue to review a decision and decree of the Circuit Court of Appeals for the First Circuit which sustained the right of the respondent to maintain a bill in equity for the discovery by the petitioner of facts which rest peculiarly within the knowledge of the petitioner and of documents in the possession of the

petitioner, which are relevant to the support of the respondent's case in an action at law which is pending and is undetermined on the law side of the United States District Court for the District of Maine, the Court in which the bill in equity for discovery was filed.

The action at law in aid of which the bill in equity for discovery was filed originated in a suit in equity which was instituted on January 21, 1921, when the respondent filed a bill of complaint to secure specific performance of a written contract between the respondent and the petitioner's predecessor, the Cudahy Refining Company. (R. 40) That contract, dated October 2, 1916, (R. 12) related to the loan by the respondent to the petitioner of an experimental still for cracking petroleum oils to produce gasoline, and to advice and assistance to be given to the petitioner's experts in connection with further experimental work to be carried on with reference to a process for treating petroleum oils which had been invented by Mr. Ulysses S. Jenkins. The provisions of the contract of October 2, 1916, on account of which relief was sought by the original bill in equity, and on account of which damages now are claimed in the declaration in the pending action at law, are as follows:

> "It is further definitely understood and agreed between us *that any improvements, whether of a mechanical nature, or in the process*, which may be developed as the result of the work of your (Cudahy Refining Company's) engineers and experts in familiarizing themselves with the Jenkins apparatus and process, *shall accrue to the Jenkins Petroleum Process Company*, and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and *to assign said applications, together with the improvements they are intended to protect, to the Jenkins Petroleum Process Company.* * * *" (Italics ours,)

The bill of complaint in the original suit in equity for specific performance and the declaration in the pending action at law for damages for a breach of the contract of October 2, 1916, each alleges full performance by the respondent of its obligations under the contract of October 2, 1916; the use of the experimental still and of the services of Mr. Jenkins by the petitioner, and particularly by Edward W. Isom, an employee and an officer of the petitioner, and then alleges that from the knowledge acquired thereby and from the suggestions made by Mr. Jenkins, Edward W. Isom made certain improvements in and adaptations of the Jenkins apparatus and process; that he made such improvements and adaptations the subject matter of an application for United States Letters Patent; that Letters Patent of the United States Number 1,285,200, dated November 19, 1918, thereafter issued to Edward W. Isom on that application, and that that patent was assigned to the petitioner, which, after due demand therefor, refused to assign it to the respondent.

After a hearing and the introduction of evidence on behalf of both parties, the District Court held that a case for specific performance had not been established. (32 F. (2d) 247) The opinion of the Circuit Court of Appeals for the First Circuit on the appeal of the respondent from the decree of the District Court in the original suit in equity (32 F. (2d) 252) stated:

> "That Isom made his invention from what was disclosed by Jenkins rather than from knowledge gained from his own experimentation, the prior art, and from all that had been disclosed by prior patents, is not in our opinion so clearly shown as to ground a decree for specific performance." (p. 256)
>
> * * * * * * * * *
>
> "To sustain a decree of specific performance the contract not only should be clear and unambiguous, but the evidence in relation to acts alleged to have been done under it and necessary to give it effect should be clear and convincing.

> "Failing such evidence, the parties must be left to their equitable or legal remedies; the bill must be dismissed without prejudice and without costs." (p. 257)

In its mandate, however, the Circuit Court of Appeals for the First Circuit modified its own opinion and the decree of the District Court, and ordered, adjudged and decreed that:

> "The decree of the District Court is affirmed so far as it denies specific performance of the contract of October 2, 1916. But so far as it dismisses the bill as to other issues involved, it is reversed; and as to those issues the case is remanded to the District Court with directions to transfer it to the law side of the court, where within thirty days from the date of this order the plaintiff may have leave to amend its bill of complaint into an action at law for breach of the contract of October 2, 1916. No costs are to be allowed to either party." (R. 77)

In accordance with that mandate and with an order of the United States District Court for the District of Maine transferring the cause to the law side of that Court, the declaration in the pending action at law in aid of which the bill in equity for discovery was brought, was filed on August 28, 1929. The petitioner's motions to strike out the declaration and to dismiss the action were argued and were denied. (38 F. (2d) 820) Thereafter, the petitioner's motion for further and better particulars and the respondent's motion for leave to amend the declaration by adding a third count were heard by the Court and the motion to amend was granted. (R. 13) Thereafter, the petitioner's brief statement of the special matters of defense to be used under the general issue pleaded were filed and issue was joined by the respondent on the petitioner's pleas. (R. 15)

The bill in equity for discovery which was filed by the respondent on September 8, 1931, alleges that the respon-

dent cannot safely proceed to the trial of the pending action at law and cannot prove with any degree of accuracy and completeness at the trial of said action at law the damages which the respondent has suffered by reason of the breach of the contract of October 2, 1916, without the discovery by the petitioner of facts and of documents in accordance with the prayer of that bill.

Briefly stated, the declaration in the pending action at law in aid of which the bill in equity for discovery herein was filed by the respondent, alleges a breach by the petitioner of the contract of October 2, 1916, in that the petitioner, regardless of its obligations under and in accordance with the terms of said contract, did not cause Edward W. Isom to assign to the respondent his application for Letters Patent on which Letters Patent of the United States Number 1,285,200 thereafter issued, and in that the petitioner did not turn over to or cause to accrue to the respondent the improvements of a mechanical nature and in the process which are described in said Letters Patent, and for the protection of which said application for Letters Patent was filed, and the declaration prays damages for that breach of the contract.

The bill in equity for discovery alleges that the respondent cannot prove at the trial of the pending action at law, the damages which the respondent has suffered by reason of the petitioner's breach of the contract of October 2, 1916, without

(a) The full discovery by the petitioner as to whether or not it constructed and operated any cracking still or cracking stills as mentioned and defined;

(b) The full discovery by the petitioner as to the number, if any, of such cracking stills, the date each such cracking still was constructed and the period of time each such cracking still was operated by the petitioner;

(c) An inspection of the drawings showing the particular character, type and construction of any such cracking still or cracking stills constructed, used and operated by the petitioner;

(d) The quantity of gasoline (in barrels) and of other allied petroleum products resulting from the cracking of petroleum oils in any such cracking still or cracking stills operated by the petitioner; and

(e) The amount of petroleum oils charged into any such cracking still or cracking stills constructed and operated by the petitioner.

The desired discovery relates to the period of time starting with the 19th day of November, 1919, and extending down to the date of the filing of the declaration in the pending action at law.

The bill in equity for discovery herein alleges in paragraph 7 that the facts sought to be elicited from the petitioner are peculiarly and exclusively within the knowledge of the petitioner; that the documents sought to be inspected are exclusively and solely in the possession of the petitioner; that said facts and said documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that said facts and said documents are not available to the respondent without the assistance of a Court of Equity. (R. 7) The bill then further alleges that the production of the books, records and papers of the petitioner in response to a subpoena *duces tecum* would not enable the respondent safely to prosecute its action at law by reason of the fact that the entries and notations in such books, records and papers are so numerous and so complicated that the respondent, its attorneys and other representatives, could not possibly ascertain definitely in a practical and correct manner and within any reasonable length of time, and especially not within the length of time which will be required for the trial of said

action at law, either the amounts of petroleum oils charged into the cracking stills concerning which discovery is sought, or the production of gasoline or of allied petroleum products resulting from the cracking of petroleum oils in such cracking stills. (R. 8)

The District Court sustained the petitioner's motion to dismiss the bill in equity for discovery. (56 F. (2d) 272)

On appeal, the decree of the District Court was reversed by the Circuit Court of Appeals for the First Circuit (62 F. (2d) 663), which held:

> 1. That a bill for discovery may be maintained in the Federal Courts if the party filing such a bill shows that there is real need of it and that the desired evidence cannot be obtained in a practically useful way under Rev. Stat., Sec. 724, (28 U. S. C., Sec. 636); that the decision in *Carpenter v. Winn*, 221 U. S. 533, rather enlarges the field of bills for discovery, and that it is highly desirable that such evidence be sifted out before the jury trial. (p. 664)
>
> 2. That bills for discovery may be brought to obtain evidence relevant only on the amount of damages. (In this connection the Circuit Court of Appeals for the First Circuit disagreed with the statements of the Circuit Court of Appeals for the Second Circuit in *Munger v. Firestone Tire & Rubber Co.*, 261 Fed. 921, and in *Loose v. Bellows Falls Pulp Plaster Co.*, 266 Fed. 81, to the effect that bills for discovery can be used only to obtain facts bearing on the "issues," *i. e.*, on questions of liability, and not to obtain evidence of damage, on the ground that that statement is contrary to the weight of the American decisions and to the English law. (p. 664))
>
> 3. That evidence as to the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, are facts which, with other relevant circumstances, may be introduced and may be supplemented by opinion evidence of value to

establish the value of an application for a patent, which is a thing *sui generis*, and which has no market value in the strict sense of that term. (p. 665)

4. That evidence of the profits, if any, which the Sinclair Company made by using the Isom invention would have no relevancy on the question of damages. (p. 665) (However, no one of the interrogatories which are incorporated in the respondent's bill in equity for discovery, seeks to obtain any information or data in any way relative to any *profits* which the petitioner may have made, and the respondent never has contended that the petitioner's profits are the measure of the respondent's damages, or even that any evidence as to petitioner's profits would be relevant and material to the issue of the amount of the respondent's damages.)

5. That the contract of October 2, 1916, may be regarded as broken when the petitioner finally disabled itself from performing it, and that on the facts alleged, the contract appears to have been broken on the date when the application became merged into the patent. (p. 665)

In accordance with the opinion of the Circuit Court of Appeals for the First Circuit, the respondent is entitled to discovery from petitioner of general facts showing the commercial utility of the Isom invention in the art or industry to which it relates up to the time of trial, as material and relevant evidence on the inherent character and place of the invention in question; respondent is not entitled to discovery as to the *precise extent* to which petitioner made use of the Isom invention, as such evidence is not material on the respondent's case in chief, however, should petitioner deny the utility and commercial success of the Isom invention, evidence of petitioner's use of it might be highly significant, and under those circumstances the respondent would be entitled to discovery of them.

II.

THE DECISION OF THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT IS NOT NECESSARILY IN CONFLICT WITH THE DECISION OF THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT IN THE MUNGER CASE.

The decision of the Circuit Court of Appeals for the Second Circuit in *Munger v. Firestone Tire & Rubber Co.*, 261 Fed. 921, affirming the decree of the District Court dismissing the bill of discovery in that suit, probably was correct in accordance with certain well settled principles of equity. Those well settled principles, however, were not in any way pertinent to or involved in the decision of the Circuit Court of Appeals for the First Circuit which sustains the respondent's right to the discovery which it seeks to obtain by the interrogatories incorporated in its bill in equity for discovery.

Very little attention is given in the opinion in the *Munger Case* to the character of the evidence which the plaintiff-petitioner in that case sought to obtain by his bill in equity for discovery. However, it clearly is apparent that that evidence is entirely different in its character and in its scope from the evidence which the respondent herein seeks to obtain by answers to its interrogatories. Those interrogatories require only the production of summarized data relative to the use and to the extent of the use by the petitioner of the inventions and of the improvements which the respondent claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, and an inspection of the drawings of the cracking stills in which the petitioner is alleged to have used and to have practiced those inventions and improvements.

The discovery sought by the plaintiff-petitioner in the *Munger Case* was entirely different in character. That discovery related almost entirely to the most minute and con-

fidential details of the defendant-respondent's business; to the names of the defendant-respondent's customers, and to the selling prices of the defendant-respondent's products, and it required the production of all of defendant-respondent's books, invoices, records, vouchers, agreements, correspondence, papers, documents and other data, relating to those matters. It is apparent that the discovery sought by the plaintiff-petitioner in the *Munger Case* related almost exclusively to the profits made by the defendant-respondent out of the business done by it in alleged infringement of the patent in suit, and that that discovery sought only the production of the intimate details of the defendant-respondent's business which might tend to establish the amount of such profits. The fact that that discovery sought only to obtain evidence relative to the profits made by the defendant-respondent is emphasized by the brief for the respondent in opposition to the petition for a writ of certiorari in the *Munger Case*.

No evidence whatsoever relative to any profits made by the petitioner through the use of the inventions and of the improvements which the respondent herein claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, is sought by the respondent's bill in equity for discovery in this suit. The opinion of the Circuit Court of Appeals for the First Circuit furthermore expressly states:

> "The profits if any which the Sinclair Company made by using the Isom invention have no relevancy on the question of damages, and no discovery should be ordered in respect to them. The plaintiff is not suing as the equitable owner of the patent. Our previous decision precludes it from that position. Jenkins Petroleum Process Co. v. Sinclair Ref. Co. (D. C.), 32 F. (2d) 247."

The petition for a writ of certiorari in the *Munger Case*, therefore, might have been denied on the ground that none

of the evidence sought by the bill of discovery therein was relevant or material to establish the damages, if any, recoverable in the action at law in aid of which discovery was sought, because the profits made by the defendant-respondent in that case would not have been the measure of, or evidence tending to establish, the amount of the damages sustained by the plaintiff-petitioner on account of the alleged infringement.

The respondent's brief in opposition to the petition for a writ of certiorari in the *Munger Case* stated that the *only* proposition of law decided by the Court of Appeals upon the basis of which it rightly affirmed the District Court in dismissing the bill for discovery, was that the petitioner therein could not, in aid of an action at law, have discovery of facts material only to the question of damages, until after the petitioner should have established a cause of action giving him a right to the relief asked.

The respondent's brief in opposition to the petition for a writ of certiorari in the *Munger Case* stated the facts and quoted portions of the opinions in *Rawes v. Chance*, 7 Reports Patent Cases, 275, 281, *Parker v. Wells*, L. R. 18 Ch. Div. 477, *Fennessy v. Clarke*, 37 Ch. Div. 184, and *De La Rue v. Dickinson*, 3 K. & J. 288, and then stated:

> "From this review of the English authorities it is clear that until after the plaintiff has *prima facie* established his *title to the relief claimed*, a bill for discovery of facts material only to the question of damages is premature and will be denied. * * *"

The respondent's brief in the *Munger Case* next stated the facts and quoted parts of the opinions in *United States v. Bitter Root Co.*, 200 U. S. 451, and *Eibel Process Co. v. Pennington-Martin Co.*, 197 Fed. 760, and then stated:

> "The above are the only references we have been able to find in the Federal Courts relevant to the proposition for which the petitioner here contends. They,

and the abundance of English precedents, are unquestionable authority for the action of the Court of Appeals in affirming the District Court in dismissing the bills for discovery on the ground that they are premature and that the defendant should not be compelled to submit to an examination as to profits, before a *prima facie* case has been made as to the defendant's liability. * * *"

In accordance with the principles urged by the respondent in its brief in opposition to the petition for a writ of certiorari in the *Munger Case*, the Circuit Court of Appeals for the First Circuit properly held that the respondent herein is entitled to discovery in accordance with the opinion filed by the Court.

The respondent already has made a *prima facie* case which entitles it to the verdict of the jury on the issues in the pending action at law in aid of which discovery is sought, namely, on the issues as to whether or not the petitioner has breached the contract of October 2, 1916, as alleged in the declaration, and, if so, as to the amount of the damages which the respondent has suffered on account of that breach. All preliminary questions in that action at law have been heard and have been determined. (38 F. (2d) 820) The petitioner has filed its pleas to the respondent's declaration in the action at law, and the respondent has joined issue on those pleas, and, therefore, that action at law certainly, without any further proceedings therein, next is about to come on for trial to a jury on those two issues as to whether the petitioner is liable to the respondent on account of a breach of the contract of October 2, 1916, and, if so, as to the amount of the damages to which the respondent is entitled.

The evidence taken in the original suit in equity for specific performance of the contract of October 2, 1916, is evidence in the pending action at law. 28 U. S. C. Sec. 397, (Judicial Code, Sec. 274(a)). The Circuit Court of Appeals for the First Circuit could not have remanded the original

suit in equity to the District Court with instructions to permit the respondent to amend its bill in equity for specific performance of the contract of October 2, 1916, into a declaration at law for damages for the breach of that contract, without holding affirmatively that the evidence introduced in the original suit in equity makes a *prima facie* case which now entitles the respondent to go to the jury even if no other or additional testimony be introduced in the pending action at law. The respondent, therefore, has satisfied the condition which the respondent in the *Munger Case* claimed is a prerequisite to the right to discovery. Because of the difference between the facts in the two cases, the *decision* of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* does not conflict with the *decision* of the Circuit Court of Appeals for the First Circuit herein, because the respondent herein already has established a *prima facie* case which entitles it to have its case submitted to the jury.

The fact that the jury will not consider the question of damages unless and until it has found in favor of the respondent on the preliminary question of the liability of the petitioner to the respondent, does not alter the fact that in an action at law to a jury the preliminary question of liability and the consequential question of damages are issues which must be tried together and which must be submitted together to the jury. There is no possible proceeding by which the verdict of the jury to which the pending action at law will be submitted, first could be secured on the question whether the Sinclair Company breached the contract of October 2, 1916, by refusing to assign the Isom application and patent to the Jenkins Company; by which the respondent then could have an opportunity to develop the evidence necessary to prove the amount of the damages by filing a bill of discovery, and by which there finally would be a second presentation to the jury on the question of the amount of the damages to be awarded to the respondent.

III.

THE STATEMENTS IN THE OPINION OF THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT IN THE MUNGER CASE TO THE EFFECT THAT DISCOVERY NEVER IS ALLOWED RELATIVE TO THE AMOUNT OF THE DAMAGES RECOVERABLE ARE OPPOSED TO THE WEIGHT OF AUTHORITY.

The opinion below (R. pp. 86-87) discusses and refuses to follow the statement in the opinion of the Circuit Court of Appeals for the Second Circuit in *Munger v. Firestone Tire & Rubber Co.*, 261 Fed. 921, that:

> "In other words, equity grants discovery in aid of a plaintiff's right or cause of action or in aid of a defendant's defense. These are defined by the issues of the case; whereas the amount of damages is never at issue. If a plaintiff prevail upon the issues upon his cause of action, he will be entitled to nominal damages, though he prove no damage at all, and of course, if a defendant prevail upon the issues as to his defenses, no damages will be recoverable. The amount of damages is not an issue, but follows the determination of the issues in the case, and discovery is granted only in aid of the issues." (p. 923)

As stated hereinbefore, the statement quoted above was not necessary to the decision which sustained the decree of the District Court dismissing the bill of discovery. The above statement from the opinion in the *Munger Case* also is quoted in the opinion of the Circuit Court of Appeals for the Second Circuit in *Loose v. Bellows Falls Pulp Plaster Co.*, 266 Fed. 81, but again the statement was not necessary to the decision. The *Loose Case* could have been decided merely by applying the well established principle of equity practice that if a bill for relief and discovery fails as to the

relief, it also necessarily fails as to the discovery. *United States v. Bitter Root Co.*, 200 U. S. 451, 18 C. J. 1060-1061, and cases cited in note 58, and 1072-1073 and cases cited in note 41.

There are very few opinions of the Courts of the United States which directly discuss the question whether a Court of Equity may allow discovery of facts and of documents which relate solely to the question of the damages recoverable. That condition, however, appears to be due primarily to the fact that the principles and the practice of equity relative to discovery have been so well established for so many years that this question has not been raised or discussed, either in the opinions of the Courts or in the works on equity pleading and practice, even though some confusion and uncertainty as to the law was caused by the opinions of the Circuit Court of Appeals for the Second Circuit in the *Munger* and in the *Loose Cases*. The earlier authorities, however, state in the clearest and most unequivocal manner the propositions on which the respondent relies and which were accepted by the Circuit Court of Appeals for the First Circuit.

Principles & Practice of Discovery (Bray, London, 1885), Chapter I, The Extent or Scope of the Right, states:

> "In an action for relief the court has power to enforce in favour of a party to that action from an opposite party all discovery relating to any matter in question between them in that action.
>
> "A party to an action for relief is entitled as of right to have from the opposite party in that action all discovery material for the determination of *any matter in question certainly about to come on for trial between them in that action.*" (p. 11) (Italics ours)

In Points in the Law of Discovery (Wigram, First American from Second London Edition, Boston, 1842), Mr. Wigram states with reference to the situation when a defendant has answered:

" * * And as all the points in the cause will thus come on for trial *simultaneously*, the right of the plaintiff to discovery will of necessity attach upon them all." (p. 80)

Halsbury's "Laws of England" states:

"So, also, discovery bearing only on the question of damages or accounts, and not on the question of defendant's liability, where it is possible to deal separately with the questions of liability and of the amount of damages, will sometimes be postponed until the question of liability is determined. *But where the discovery is for the purpose of enabling the party to obtain complete relief at the trial, and to do away with the necessity of an account being taken subsequently, the court may refuse to postpone it.*" 11 Halsbury's Laws of England 52. (Italics ours)

The authorities which are in point on the question under consideration, and especially the English authorities, establish conclusively that the proper determination of the question as to whether discovery should be allowed with reference to any particular issue in a suit or action, does not in any way depend upon or require any consideration of the character or nature of the issue as to which the discovery is sought;—that is, as to whether the particular discovery sought relates to the issue of the plaintiff's right or title or to the issue of the amount of the damages to which the plaintiff may be entitled. Irrespective of the issue concerning which discovery is sought, *the discovery should be allowed if, but only if, that particular issue next is about to come on for trial.* Principles & Practice of Discovery (Bray, London, 1885); Points in the Law of Discovery (Wigram, First American from Second London Edition, Boston 1842); The Law and Practice of Discovery (Peile, London, 1883); *Saunders v. Jones*, 7 Ch. D. 435 (1877); *Owen v. Morgan*, 39 Ch. D. 316 (1888); *Brown v. Evered & Co.*, 21 R. P. C. 501 (1904), (Scotland); *Schreiber v. Heymann*, 63 L. J.

Q. B. 749 (1894); *Elkin v. Clarke*, 21 W. R. 447 (1873); *McKinnon-Young Co. v. Stockton*, 55 Fla. 708, 46 So. 87 (1908); *Wells v. Holman*, 115 So. Car. 443, 106 S. E. 224 (1921); *Sherwood Bros. Inc. v. Yellow Cab Co. of Philadelphia*, 283 Pa. 488, 129 A. 563 (1925); *Hofman v. Seixas*, 33 N. Y. S. 23 (1895); *White v. Wilson*, 37 N. Y. S. 193; and *Burns v. Lipson*, 204 N. Y. A. D. 643 (1923).

It appears probable that the statement in the opinion in the *Munger case* which is quoted above is due to an inadvertent misapplication of the well established principle that discovery only is allowed when immediately material because the issue to which it relates next is about to come on for trial. As stated above, however, the situation in the action at law in aid of which this suit in equity for discovery was instituted is such that nothing could be more certain than that the next proceeding in that action will be a trial to a jury on the issues of the petitioner's liability for a breach of the contract of October 2, 1916, and of the respondent's right to damages on account of any such breach, and that the trial of those issues can not be separated. The respondent, therefore, now is entitled to the discovery of facts and of documents which are relative and material to the issue of the respondent's damages as well as to the issue of the petitioner's liability.

IV.

THE OPINION OF THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT DOES NOT CONFLICT ON ANY POINT OF LAW WITH THE OPINION OF THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT IN BRADFORD V. INDIANA HARBOR BELT RAILROAD COMPANY.

The Circuit Court of Appeals for the Seventh Circuit in *Bradford v. Indiana Harbor Belt Railroad Co.*, 300 Fed. 78, sustained a decree dismissing a bill of complaint for

discovery in aid of an action at law for damages alleged to be due to the plaintiff of seventy-five cents for each car and one dollar for each locomotive moved over a railroad on the plaintiff's property. The bill of discovery alleged that the material issue of the suit at law was the occupation and extent of the use of the property by the defendant and the amount it charged and received therefor; that the defendant kept books of account and had papers and documents showing the extent of the use of the tract; and that the plaintiff had no means of ascertaining such facts except through the answers to the interrogatories appended to the bill. It is clearly apparent, therefore, that the discovery sought in the *Bradford Case* related almost exclusively, if not exclusively, to the question of the amount of the damages to which the plaintiff might be entitled in his action at law, and that the plaintiff did not allege any facts whatsoever in the bill of discovery on the basis of which the Court could have determined whether there was a plain, adequate and complete remedy at law under Rev. Stat., Sec. 724 (28 U. S. C., Sec. 636), in that the desired evidence could be obtained in a practically useful way under that statutory provision so that there was no real need for the discovery prior to the trial.

The Circuit Court of Appeals for the Seventh Circuit really sustained the decree dismissing the bill of discovery in *Bradford v. Indiana Harbor Belt Railroad Company* for the three following reasons:

> First, that if the ascertainment of the facts would be simple and would not involve complex and voluminous accounts, the ordinary processes of law would be sufficient and the extraordinary relief by discovery in equity would be entirely unnecessary, and that the plaintiff could invoke Sec. 724 of the Rev. Stat. and it would not be presumed that the District Court would deprive him of a reasonable opportunity to examine the books and documents before the trial was concluded.

Second, that if it would be complicated, difficult and costly to establish the facts sought by the discovery, that condition was due entirely to the plaintiff's own carelessness or neglect of his rights so that it would not be equitable to permit him to impose on the defendant the expense and burden of making up the desired account.

Third, that the defendant in its brief and argument had tendered to the plaintiff all the benefits of the Indiana Statutes with reference to the production of books and papers in advance of the trial for inspection by the opposite party, so that in effect the defendant voluntarily had offered to the plaintiff everything the plaintiff could have secured by answers to his interrogatories.

It is clearly apparent that no one of the reasons stated by the Circuit Court of Appeals for the Seventh Circuit for sustaining the decree of the trial court in *Bradford v. Railroad Company*, has any bearing whatsoever on any question here under consideration. If the Circuit Court of Appeals for the Seventh Circuit had entertained any idea whatsoever that the subject matter of the discovery sought by the plaintiff was improper because it related to the ascertainment of the amount of the damages, the court certainly would have so stated in its opinion, and probably would have made that fact the principal reason for affirming the decree. Finally, with reference to the third reason for the decision, the petitioner herein, the Sinclair Refining Company, never in any way has offered to facilitate the respondent's preparation of any part of the evidence necessary to maintain the pending action at law in aid of which this proceeding in equity was instituted.

The petitioner's brief (pp. 16, 17) argues that the only specific allegations in the respondent's bill in equity for discovery as to the necessity for discovery prior to the trial rather than at the trial, relate only to the requests for discovery as to the number of barrels of gasoline produced in and as to the number of barrels of oil charged into the

petitioner's Isom cracking stills; that the Court held that discovery as to those matters should not be allowed at the present time; and that, therefore, the bill should have been dismissed on the ground that it does not allege facts which affirmatively show that the discovery ordered by the Circuit Court of Appeals for the First Circuit should be allowed in advance of the trial. Even if the petitioner's contention with reference to the construction of the allegations of the bill in equity for discovery is sound, the issue is immaterial, as the respondent clearly would be entitled to leave to amend in order to supply any deficiency or any incompleteness in the jurisdictional allegations. However, the bill in equity for discovery alleges in paragraph 6 that the respondent cannot safely proceed to the trial of the action at law and cannot prove with any degree of accuracy and completeness at the trial the damages which the respondent has suffered by reason of the petitioner's breach of the contract without the discovery sought by the bill (R. 6) and in paragraph 7 that the facts and documents concerning which discovery is sought are exclusively within the knowledge and exclusively and solely in the possession of the petitioner, that those facts and documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that those facts and documents are not available to the respondent without the assistance of the Court of Equity. (R. 7) Furthermore, the statement in the opinion of the Circuit Court of Appeals for the First Circuit that facts as to the nature of the invention, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, may be supplemented by opinion evidence of value (R. 88) clearly indicates that an inspection of the drawings showing the particular character, type and construction of the petitioner's Isom cracking stills must be had prior to the trial in order that the respondent's experts may have an adequate opportunity to familiarize themselves as to the facts concerning which they will testify.

V.

THE DECISION OF THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT THAT THE RESPONDENT IS ENTITLED TO INTRODUCE EVIDENCE AS TO THE RESULT OF THE ISOM APPLICATION AND AS TO THE COMMERCIAL UTILITY OF THE INVENTION OF THE ISOM PATENT AS SHOWN BY ITS USE IN THE OIL CRACKING ART OR INDUSTRY AND THAT THE BREACH OF THE CONTRACT OF OCTOBER 2, 1916, PROBABLY OCCURRED WHEN THE ISOM PATENT WAS ISSUED TO THE PETITIONER IS IN ACCORDANCE WITH THE GENERAL PRINCIPLES OF LAW AND IS SUPPORTED BY THE WEIGHT OF AUTHORITY.

The fundamental purpose of the principles of law as to the allowable damages in any case is to give adequate compensation to a plaintiff and not to protect a defendant in the enjoyment of what it wrongfully has acquired or has withheld. Fundamentally, the *prima facie* measure of the damages for the breach of a contract is the amount of the loss which the injured party has sustained thereby. Williston on Contracts (pp. 2392-2394); *United States v. Behan*, 110 U. S. 338; *Chicago, Milwaukee & St. Paul Railway Co. v. McCall-Dinsmore Co.*, 253 U. S. 97; and *Federal Wall Paper Co. v. Kempner*, 244 Fed. 240.

It unquestionably is the general rule that the damages for the breach of a contract to transfer property are based on the market value of that which should have been delivered by the defendant, at the place where and at the time when delivery should have been made. However, that general rule is not applicable to the pending action at law in aid of which discovery is sought hereby, because the subject matter of the contract in suit makes the ascertainment of such a market value absolutely impossible. A patent only can be issued for a new and useful invention.

Every patent therefore differs from every other patent and every patent therefore has a purely individual utility and value. The general rule of damages is applicable only to the usual articles of commerce which are bought and sold repeatedly and for which a market value is established in accordance with the economic law of supply and demand. In the case of a patent, however, no such criterion of a market value can exist, and the general rule of damages based on the standard of market value cannot be applied. *United States v. Swift & Co.*, 270 U. S. 124; Williston on Contracts (pp. 2398-2399, 2460-2461); and *United States Frumentum Co. v. Lauhoff*, 216 Fed. 610. In *United States Frumentum Co. v. Lauhoff*, an action at law for the infringement of a patent, the Circuit Court of Appeals for the Sixth Circuit stated with reference to the ascertainment of damages under conditions where the rule of the market value is not applicable:

> "* * * The real value—the actual value—of what has been taken is always the ultimate question. Proof of market value is one way to show this actual loss; proof of lost sales is another way. But, if neither of these methods can be followed, the law permits other available, pertinent proofs. Those familiar with real estate estimate and testify to the real value or fair value of land which is without market value (*Chicago, etc., Ry. v. Ohio Co.* (C. C. A. 6), 214 Fed. 751, 131 C. C. A. 57); and these witnesses and *the jury may take into account all the special circumstances of the situation as bearing on the ultimate question.* The same thing is true as to personal property of such character that it has no market value. Instances of the application of this rule as to both real and personal property are too familiar for citation. In the same general class are all personal injury cases. Pain and suffering, the loss of earning power, the loss of support, are all things which have no market value and all present situations where the damages cannot be ascertained or computed according to any arithmetical formula; *but the jury is put in possession of all the facts and cir-*

cumstances, it has the benefit of such testimony from experts as may show the rules and methods in force in the particular field, *and it estimates, as best it may, how much money will compensate plaintiff for the wrong done.*" (Italics ours)

The petitioner, Sinclair Refining Company, consistently has endeavored in the District Court, in the Circuit Court of Appeals, and now in its petition for a writ of certiorari, to establish limitations on the respondent's right to introduce evidence on the issue of the damages which the respondent has suffered on account of the petitioner's breach of the contract of October 2, 1916, which, if sustained, very possibly might make it impossible for the respondent to introduce evidence which would entitle the jury to return a verdict for anything more than nominal damages, no matter how meritorious the respondent's case might be. Briefly summarized, the petitioner's contentions and the results on the trial of the pending action at law if those contentions shall be sustained are as follows:

Any breach of the contract of October 2, 1916, occurred on September 10, 1917, when Edward W. Isom filed his application on which United States Letters Patent No. 1,285,200 later issued and when he assigned that application to the petitioner; the only measure of damages for that breach of contract is the market value of that patent application as of that date, and therefore no evidence as to matters and things of any later date can be introduced at the trial of the action at law even for the purpose of assisting the jury to ascertain the market value of that application as of that date.

Those contentions, if sustained, would preclude the respondent from introducing at the trial of the pending action at law, not only all evidence as to the matters and things of which discovery is sought herein, but also all evidence of every kind and nature whatsoever as to the actual and practical utility and value of the inventions of

the Isom patent as established by the construction and by the operation and by the extent of the operation and by the economy and the efficiency of the operation of cracking stills embodying those inventions, whether constructed and operated by the petitioner or by the respondent or by any other persons or corporations. Under those conditions, practically the only evidence which the respondent would be allowed to introduce to establish the value of the Isom application or patent as the measure of the damages to which the respondent is entitled, would consist of the purely theoretical and speculative opinions of experts based solely on a study of the patent application and of the state of the art as of the date that application should have been assigned to the plaintiff.

The petitioner's contentions, if sustained, would place an unreasonably narrow construction on the contract of October 2, 1916. The important provision of that contract is that any improvements, whether of a mechanical nature or in the process, developed by the petitioner's engineers and experts in familiarizing themselves with the Jenkins apparatus and process, should accrue to the Jenkins Company. The provision with reference to the assignment to the Jenkins Company of any application filed to protect any such improvements is a subordinate provision of the contract which merely specifies one means for carrying out the principal provision. The plaintiff, therefore, should be permitted to introduce any and all evidence which is relevant and material on the issue of the *value of the inventions* for which Letters Patent of the United States were issued to the Sinclair Company as the assignee of Edward W. Isom, and the consideration of the jury should not be limited to the question of the *value of the application for a patent* which was filed by Edward W. Isom on September 10, 1917, and on which Letters Patent No. 1,285,200, dated October 19, 1918, thereafter issued. In accordance with the petitioner's contentions, however, the jury would be limited

to the purely speculative inquiry, first, as to whether any patent would issue on the basis of the original application filed by Edward W. Isom, and if so, as to the scope that patent would have and as to the inventions that would be covered thereby, and second, as to the commercial value of the patent, the scope and the fact of the issuance of which would depend upon the result of the first speculative inquiry. Both those inquiries, of course, in accordance with the petitioner's contentions, would be made entirely from the viewpoint of September 10, 1917, and all actual facts, and all actual knowledge derived from any matters and things of any later date than September 10, 1917, would be disregarded and would be kept from the consideration of the jury.

We submit that those contentions are not sound, but that on the contrary, all the applicable principles of law have the purpose and the effect of assisting the jury to learn and to consider all the facts, circumstances and conditions which are directly pertinent to the questions submitted for its consideration and verdict.

The fundamental questions which will be submitted to the jury for its decision at the trial of the pending action at law are, first, did the petitioner breach the contract of October 2, 1916, by failing and refusing to assign the Isom application or patent to the respondent, and second, if the first question is answered in the affirmative, in what amount has the respondent been damaged by that breach of the contract by the petitioner?

The opinion of the Circuit Court of Appeals for the First Circuit reasonably holds that under the conditions existing in the pending action at law the usual rule of the market value is not applicable as the measure of the damages to which the respondent is entitled, stating:

> "An application for a patent, being a thing *sui generis*, has no 'market' value in the strict use of that term. *Standard Oil Co. v. So. Pacific Co.*, 268 U. S.

146; *United States Frumentum Co. v. Lauhoff*, 216 Fed. 610 (C. C. A. 6). Its money value may be estimated from the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art. These facts, and other relevant circumstances, may be supplemented by opinion evidence of value, as in the case of real estate. *Montana Ry. Co. v. Warren*, 137 U. S. 348.

"We do not think that a court, valuing in judicial proceedings an invention described in an application for a patent, is obliged to shut its eyes to the result of the application, nor to the commercial utility of the invention as shown by the use of it in the art or industry to which it relates, but may take evidence on those points up to the time of trial. Williston on Contracts, page 2394.

"Such evidence is not for the purpose of showing increase in value or new uses,—which as is well settled with regard to the valuation of land taken by eminent domain would not be admissible,—but to show the inherent character and place of the invention in question. It is analogous to evidence of successful commercial use of a patent on the question of invention, and of the actual results of a physical injury for which damages are sought. *Hetzel v. B. & O. R. R. Co.*, 169 U. S. 26; *Cincinnati S. & L. Co. v. Western S. L. Co.*, 152 U. S. 200. * * *" (R. 88-89)

The petitioner's contention that the only measure of the damages which the respondent should be allowed to recover, is the market value of the application on which United States Letters Patent No. 1,285,200 later were issued, as of September 10, 1917, when that application was filed by Edward W. Isom and when it was assigned by him to the petitioner, is thoroughly unreasonable. Certainly, it cannot be the law that the respondent's cause of action accrued and the statute of limitations began to run against it, long prior to the date when the respondent knew or when the respondent by any means could have ascertained that the petitioner had breached the contract.

If the petitioner's position is correct, any person who has contracted to assign an invention, can avoid any liability for a breach of that contract, merely by keeping his secret patent application pending so long in the Patent Office that the patent does not issue until after the statute of limitations has run against the cause of action which accrued when the application was filed and was not assigned.

VI.

CONCLUSION.

We respectfully submit, that for the various reasons stated above the petition for a writ of certiorari should be denied.

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March 28, 1933.